



Office of Inspector General

February 9, 2006

MEMORANDUM

TO: USAID/South Africa, Acting Mission Director, Denise Rollins

FROM: Regional Inspector General/Pretoria, Jay Rollins /s/

SUBJECT: Memorandum Report Regarding Certain USAID/South Africa Expired Obligation Documents with Unliquidated Balances (Report No. 4-674-06-001-S)

This memorandum report transmits our finding and recommendation regarding the need to research certain USAID/South Africa expired obligation documents with unliquidated balances totaling \$131,050. This memorandum report is not an audit report, but rather was developed during the field work for the audit pertaining to your contractor performance evaluation and award closeout programs. We have reviewed your comments on the draft memorandum report in which you indicate that the Mission reviewed all thirty-six expired obligations identified in the draft report and took action to deobligate thirty-five of them totaling \$82,187. Based on this response, we consider the single recommendation in this report to have received a management decision. Please coordinate final action with USAID's Office of Audit, Performance and Compliance. Your comments have been included as Appendix II in this final memorandum report. I want to express my sincere appreciation for the cooperation and courtesy extended to my staff during this review.

BACKGROUND

USAID/South Africa's Office of Acquisition and Assistance (OAA) has contracting responsibility for the Mission. The office is staffed with a contracting officer, a senior acquisition and assistance specialist and six other specialists and assistants whose responsibilities include awarding contracts, grants and cooperative agreements, as well as closing them. The Executive Office also retains closeout responsibilities for certain small purchase documents.

USAID policies and procedures state that missions should have formal control systems in operation for the closeout of contracts and grants. Whenever a document expires, the control system should go in motion to ensure that the Controller, CTO, contractor/grantee, and OAA perform their various closeout responsibilities. These responsibilities ensure that the disposition of all funds, as well as non-expendable property, is properly authorized and documented.

In addition to the closeout process, USAID policies and procedures state that financial management consists of recording and reporting obligations and expenditures that are consistent with the applicable appropriation act, as well as conducting an annual review and certification of remaining unliquidated balances.

For fiscal year 2005, USAID/South Africa reported budget authorizations of \$5.5 million for operating expense funds, in addition to \$83 million for program funds.

DISCUSSION

ADS Chapter 302, *USAID Direct Contracting*, states that the *Federal Acquisition Regulation* (FAR) is an ADS mandatory reference, while the *Guidebook for Managers and Cognizant Technical Officers on Acquisition and Assistance* (Guidebook) serves as a supplementary reference. FAR Part 4 establishes several different time frames for closing out various types of contracts, as well as describing numerous steps to be taken in the process. The Guidebook states that all USAID missions should have formal systems in operation for the closeout of contracts and grants. As a basis for these systems, the Guidebook cites Contract Information Bulletin (CIB) 90-12 as an additional supplement. This CIB states that a continuing priority of USAID is the expeditious closeout of acquisition and assistance instruments after the goods have been received or services have been delivered. It reiterates the necessity for a firm commitment by all procurement officials to effect closeout of instruments in a timely and comprehensive manner. USAID guidance states that the closeout process is vital in ensuring that the disposition of remaining fund balances and non-expendable property has been properly authorized and documented.

ADS 621 states that mission controllers must coordinate at least annually a mission-wide review of all unexpended obligations to identify excess and unneeded balances for potential deobligation. USAID's *Deobligation Guidebook*, provides detailed steps for identifying obligations¹ that are no longer needed and for subsequently deobligating the balances.

In order to test whether USAID/South Africa had closed out awards in accordance with guidance during the audit pertaining to contractor performance evaluation and award closeout programs, we began by testing documents in the Mission's accounting system that we considered the highest risk—documents over 36 months since their reported expiration date. We selected 36 months to provide sufficient time for the settlement of indirect cost rates and the completion of financial audits or other final settlement activities as set forth in FAR Part 4.

As reported by the Controller's Office², there were 95 documents with undisbursed balances totaling \$1,099,957 that were 36 months past their reported expiration dates. Of these 95 documents, we determined that 36 documents with total undisbursed balances of \$131,050 were either not subject to closeout procedures or were not the closeout responsibility of the Mission's Office of Acquisition and Assistance (OAA).

¹ For documents under a Strategic Objective Agreement (SOAG), different terms may be used for the term "obligation," such as "subobligation" or "commitment."

² Source: Mission Accounting and Control System, as of August 31, 2005.

The documents in question represented a number of different types of obligations. Several were small purchase documents for which the Executive Office had the responsibility for closing. Several documents consisted of journal vouchers processed by the Controller's Office. There were also numerous outstanding travel authorizations for various purposes such as temporary duty, rest and relaxation, separation, and invitational travel. Other documents consisted of self help projects implemented through the U.S. Embassy. There was also a project implementation letter, as well as a participating agency service agreement. This data is summarized in the table in Appendix I.

CONCLUSION

Although we did not perform any auditing procedures on these documents, the excessive time that has passed since the reported expiration dates indicated to us that these documents represented a high level of financial risk for USAID/South Africa. For example, the reported expiration dates go back as far as August 1993. Due to their age, we believe that action may need to be taken on these documents to resolve any outstanding issues and to identify balances that may no longer be needed. The reported age of these documents represents a substantial risk that a significant level of funding may not have been made available for better uses.

In order to reduce the risk that funds represented by the documents in this memorandum report are not being put to better use, we have the following recommendation.

Recommendation No. 1: We recommend that USAID/South Africa research the documents totaling \$131,050 in unliquidated obligations set forth in this report and deobligate the balances that are no longer needed.

EVALUATION OF MANAGEMENT COMMENTS

The Mission agreed with the single recommendation. In the process of reviewing the thirty-six obligations identified in the draft report, the Mission reportedly took action to deobligate thirty-five of the obligations totaling \$82,187. The Mission determined that one obligation, totaling \$48,862, was still valid. Based on the Mission's comments, we consider Recommendation No. 1 to have received a management decision. Final action may be achieved by providing evidence of these deobligations to USAID's Office of Audit, Performance and Compliance.

In addition to addressing the audit recommendation, the Mission took additional actions to strengthen its accounting practices. As a direct result of researching the obligations above, the Controller found that the procedure for liquidating advances and issuing Bills for Collection (BOC) was inadequate. Four BOCs, amounting to \$217,000, were discovered to have outstanding advances still on the advance ledger. According to the Mission, a new procedure was drafted and corrective action was taken to liquidate those advances.

Another benefit to addressing the recommendation occurred when the Mission established standard operating procedures to reinforce Agency debt collection regulations and began a review of twenty-seven BOCs, totaling \$970,000, dating back as far as 1995. According to those regulations (Automated Directives System 625.3.4), any debt over 180 days delinquent that is not in the process of being collected must be referred to either the Mission director or to USAID/Washington for write-off/transfer to Treasury.

Finally, the Mission thanked the Regional Inspector General's office for its work in highlighting the expired obligations in this report, and for the additional benefits to the Mission as they have taken steps to proactively address those obligations.

**Documents Reportedly Expired
over 36 Months with Undisbursed Balances and Closeout
Responsibilities Other than Office of Acquisition and Assistance**

No. of Documents	Document No.	Earmark Control No.	End Date	Undisbursed Amount
1	AEP-P-00-96-00024-00	C000183	9/30/2002	48,862.26
2	JV-067417178	C990222	9/30/2000	1,914.39
3	PIL-674-0315-5042-93	C970359	12/31/2001	4,142.00
4	SO#1-MISC-JV967417182	C990169	3/31/2001	3,000.00
5	SO#1-MISC-JV967417182	C990170	3/31/2001	1,332.29
6	SSH-00-674-E-03	B000134	10/31/2001	806.39
7	SSH-01-674-EP-03	B100072	5/28/2002	481.12
8	SSH-01-674-EP-06	B100151	5/28/2002	920.95
9	SSH-01-674-J-04	B100161	5/31/2002	605.36
10	SSH-94-674-J-12	B940257	12/28/1994	5,942.47
11	SSH-98-674-J-02	B980153	7/2/1999	9,500.00
12	SSH-98-674-J-10	B980161	7/2/1999	4,461.10
13	SSH-99-674-D-06	B990167	3/22/2000	6,025.00
14	SSH-99-674-EP-08	B990153	10/30/2000	1,849.08
15	SSH-99-674-P-15	B990101	10/30/2000	2,328.70
16	TA-3990245	B930351	8/20/1993	3,276.38
17	TA-674-00-0154	C000115	9/15/2000	60.60
18	TA-674-02-0077	C990205	5/4/2002	2,548.27
19	TA-674-02-0080	C000115	4/29/2002	1,042.98
20	TA-674-94-0201	B940392	8/29/1994	247.23
21	TA-674-95-0372	B950464	10/20/1995	492.68
22	TA-674-99-0101	C990043	5/23/1999	639.65
23	TR-674-01-0041-0472	C000128	9/25/2001	550.00
24	PO-674-0318-O-00-4931	B940431	1/15/1995	454.80
25	PSC-674-0318-S-00-5192	B950363	1/19/1996	4.03
26	PO-674-0318-O-00-5863	B950458	3/31/1996	2,341.95
27	PO-674-0318-O-00-7044	C970050	8/18/1997	9,490.00
28	PSC-674-0318-S-00-7028	C970011	9/30/1997	1,197.04
29	PO-674-0318-O-00-8677	C980033	5/5/1998	4,972.90
30	PO-674-O-00-00-00677	C000146	9/15/2000	2,739.80
31	PSC-674-0318-S-00-6114	C990069	10/30/2000	195.99
32	PO-674-O-02-00-02051	C000326	1/31/2002	729.83
33	PO-674-O-02-00-02203	B200073	7/19/2002	0.07
34	HRN-P-00-97-00016-00	C100156	9/18/2002	5,941.01
35	PO-674-O-02-00-02278	B200173	9/30/2002	11.09
36	PO-674-0318-O-00-8020	C980010	6/30/1998	1,942.70
Total				\$ 131,050.11

MANAGEMENT COMMENTS



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FROM THE AMERICAN PEOPLE

UNITED STATES GOVERNMENT ACTION MEMORANDUM

DATE : February 1, 2006

TO: Jay Rollins, Regional Inspector General/Pretoria

FROM : Denise Rollins, Acting Mission Director /s/

SUBJECT : Management comments – Draft Memorandum Report regarding certain USAID/South Africa expired obligation documents with unliquidated balances (Report No. 4-674-06-XXX-S)

The mission has reviewed the subject draft Memorandum Report and agrees with your single recommendation.

The following is our response and the actions taken to resolve it.

Recommendation #1: We recommend that USAID/South Africa research the documents totaling \$131,050 in unliquidated obligations set forth in this report and deobligate the balances no longer needed.

In the process of reviewing the subject Memorandum Report the Mission took action to deobligate thirty-five of the thirty-six obligations. The total amount deobligated is \$82,187. The Mission determined that one obligation (totaling \$48,862.26) is valid and is required to cover costs of a USAID/SA PASA. The mission's action addresses the recommendation, and requests the finding be considered closed upon issuance of the final report.

In addition to addressing the audit recommendation above, the Mission took additional actions to strengthen its accounting practices. As a direct result of researching the obligations above, the Controller found that the procedure for liquidating advances and issuing bills for collection was inadequate. Bills for collection were being issued, while maintaining the outstanding advance in the advance ledger. At the same time, the Bill for Collections was being recorded on the Agency's Data Collection Tool. This had the effect of counting the outstanding amount twice in the Agency's financial statements. Four Bills for Collection, amounting to \$217,000, were discovered to have outstanding advances still on the advance ledger. A new procedure has been drafted and corrective action has been taken to liquidate all advances where a Bill for Collection has been issued.

Another benefit to addressing this recommendation occurred when the Bill for Collection data base was reviewed. There were twenty-seven Bills for Collection, totaling \$970,000, dating back as far as 1995. According to ADS 625.3.4 any debt over 180 days delinquent that is not in the process of being collected must be transferred to Treasury.

The Mission has established standard operating procedures to reinforce the ADS Debt Collection regulations and is in the process of reviewing each Bill for Collection. Any BOCs that exceed the 180 day time frame and are not in the process of being collected will be referred to either the Mission director or to USAID/Washington for write off / transfer to Treasury.

The Mission would like to take this opportunity to thank the Regional Inspector General's office for their work in highlighting the expired obligations in the subject report, and for the additional benefits to the Mission as they have taken steps to proactively address those obligations and the additional issues indirectly arising from the recommendation.